

**CALIFORNIA SCHOOL FINANCE AUTHORITY
REVENUE ANTICIPATION NOTES (ROCKETSHIP EDUCATION),
SERIES 2012A AND SERIES 2012B**

EXECUTIVE SUMMARY

RESOLUTION 12-36

Applicant:	Rocketship Education
Amount Requested:	Not to exceed \$6,037,881
Expected Issuance:	October 2012
Use of Proceeds:	The purpose of the financing is to provide Rocketship Education (“Rocketship”) with access up to approximately \$6.04 million of working capital to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2012-13
Note Type:	Revenue Anticipation Notes, “Series 2012A and 2012B Notes”
Credit Enhancement:	None
Expected Rating(s):	Transaction will not be rated
Maturity Date:	October 31, 2013
Sale Method:	Private Placement
Note Purchaser:	LIIF (Low Income Investment Fund) and NCB Capital Impact
Note Counsel:	Orrick, Herrington, & Sutcliffe
Borrower’s Counsel:	Rocketship Education’s Counsel

I. Background

The California School Finance Authority (Authority) is a conduit debt issuer created in 1985 to provide financing for working capital and capital improvements to participating parties. A participating party may be a county office of education, school district, community college district, or charter school. In light of the State’s projected budget deficits and deferral of substantial K-12 payments in the current 2012-13 fiscal year, a number of California charter schools are expected to incur temporary cash flow deficits.

II. Purpose

The purpose of the Charter School Working Capital financing is to provide participating borrowers (each a “Participant”) with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state funding for FY 2012-13.

III. Structure

Rocketship, as Agent, will enter into a single loan agreement on behalf of each Participant, secured by each Participant's available revenues as further described under Source of Repayment. The loans to the respective Participants will be aggregated for purposes of CSFA's sale of Notes from time to time solely [Since the Note can be transferred, I think additional notes under the Master Note could be issued to a subsequent Purchaser.] to Low Income Investment Fund (LIIF) and NCB Capital Impact (NCB). In order to permit the Participants to both prepay and borrow additional proceeds from time to time during the term of the Loan Agreement, the Indenture permits CSFA to issue additional upon the agreement of the Borrower, CSFA, LIIF, and NCB [or a subsequent purchaser.]. The maximum principal amount of the loan that is outstanding at any time may not exceed \$6,037,881. As the purchaser of the Notes, LIIF and NCB must be deemed a Qualified Institutional Buyer pursuant to 17 CFR 230.144A (Private resales of securities to institutions). LIIF and NCB will not be authorized to sell, transfer or otherwise dispose of the 2012A and 2012B Notes, except as provided for in the Indenture [i.e., with Borrower consent, and execution of a letter of representations that includes a representation that the Subsequent Purchaser meets a minimum standard of sophistication and has performed their own diligence.]. In no case shall a Participant's loan amount exceed 85% of uncollected FY 2012-13 revenues. A portion of each loan will be used to pay issuance costs at closing. Debt service due on a Participant's loan will be paid via the State Controller's Intercept Mechanism.

IV. Security and Source of Payment

All Participants will be required to pledge an intercept of the state-aid portion of their General Purpose Block Grant (GPBG) [I think EPA money may be intercepted as well – does CSFA consider EPA money to be subsumed under the General Purpose Block Grant?] in order to guarantee debt service under the terms of their respective loan agreements. The Participants will be required by CSFA to utilize the State Controller's Intercept Mechanism (Section 17199.4, Education Code) to ensure that loan repayments, which in turn become debt service payments debt service payments are paid to the Trustee directly by the State no later than the maturity date specified in each respective loan agreement. In the event a Participant ceases to Operate, the Trustee, as assignee of the Authority's rights under the Loan Agreement, may accelerate the loan repayments of such Participant.

Interest will accrue on the face value of the RAN during the term of the loan, with scheduled principal pay downs, and all outstanding principal and interest due at maturity. Payments are expected to be repaid by October 31, 2013, and no more than \$6,037,881 shall be outstanding at any one time

V. Interest Cost and Fees

Rate for the Series 2012 Notes in any Variable Rate Calculation Period shall be calculated as a rate equal to the 30-day LIBOR in effect on the closing date, plus 4.50%. The Variable Rate and the interest rate payable on the Notes shall never be less than 4.75%. As of October 4, 2012, the 1-month LIBOR rate was 0.22%.

VI. Preliminary Sources and Uses

Preliminary Sources and Uses	
Sources	
Par Amount of Notes	6,037,881
Total Sources	\$6,037,881
Uses	
Working Capital	5,995,574
<u>Financing Costs</u>	
CSFA Issuer Fee	4,528
AG Fees	5,000
PFD Agent for Sale Fee	6,000
Bond Counsel	15,000
Combined Origination Fee	30,189
Trustee	2,090
Combined Lenders' Counsel Fee	<u>19,500</u>
Total Financing Costs	82,307
Total Uses	\$6,037,881

VII. The Project / Use of Funds

The purpose of the financing is to provide the Rocketship Education schools listed in Exhibit A of this summary with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state funding for FY 2012-13.

VIII. The Borrower

Rocketship Education is operated as a California non-profit public benefit corporation and is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3).

In 1999, officials from Santa Clara University asked Father Mateo Sheedy, Pastor of Sacred Heart Parish in San Jose, to recommend children from his parish for the Juan Diego Scholarship program. Father Mateo conducted an exhaustive search to find candidates who could attend and succeed at this four-year college, but he was unable to find a single qualified student. He was appalled that, of the hundreds of children in his parish, none had received the education necessary to attend Santa Clara University. Father Mateo immediately began researching ways to solve this problem. He soon became convinced that the public schools around his parish were failing to educate the students in his church. He decided that the children of the parish needed to have an alternative to their neighborhood district school. Father Mateo's vision brought a full K-12 alternative path to downtown San Jose through the following schools: Rocketship Mateo Sheedy Elementary School (K-5), Sacred Heart Nativity School (6-8), and Downtown College Preparatory (9-12). In its first year of operation, Rocketship Education's first school, Rocketship Mateo Sheedy Elementary School became the highest ranked low-income elementary school in Santa Clara County and the seventh

ranked school in California. This caused an enormous demand from parents in other parts of Santa Clara County for Rocketship Education to open additional schools. Based on the success of Rocketship Mateo Sheedy Elementary School, the founders decided to expand Rocketship Education to serve other schools in the most troubled neighborhoods in San Jose. Rocketship Education believes that it has taken the successful model pioneered at Rocketship Mateo Sheedy Elementary School and translated it into the critical systems necessary for successful replication. Rocketship Education will provide each Rocketship school with systems and support for Curriculum, Finance, Legal, Learning Lab, and Human Resources. By capturing the best practices from Rocketship Mateo Sheedy Elementary School, Rocketship Education believes that each Rocketship school can avoid many of the startup hurdles faced by most charter schools and quickly produce strong academic results and a solid school culture by focusing on the key levers which drive student achievement. Rocketship Education believes that its model is fundamentally different from other elementary schools in five important ways: an extended school day, high expectations, teacher teaming, deep community involvement, and individualization for each student.

Rocketship Education is designed to serve students who are or may be at risk of achieving below basic proficiency on state exams. Rocketship Education intends to attract children of parents who are seeking an alternative to their current educational system, who desire an innovative educational approach, and who share the vision of Rocketship Education. Rocketship Education anticipates that it will enroll primarily students from schools which are undergoing program improvement ("PI") in conjunction with the Federal No Child Left Behind regulations.

IX. Borrower Financial Data

Staff reviewed four years of audited financial statements (2007-08 through 2010-11), cash flow projections for 2012-13, and an adopted budget for 2012-13. Six of Rocketship Education's schools are participating in the working capital program.

X. Due Diligence Undertaken to Date

Staff reviewed the applicant's responses to the questions contained in the Legal Status Questionnaire (LSQ) portion of the application. Rocketship answered "N/A" to all questions contained in the LSQ.

XI. Staff Recommendation

Staff recommends Authority approve Resolution Number 12-36 in an amount not to exceed \$6,037,881 for Rocketship Education subject to final financing terms acceptable to Authority.

EXHIBIT A

PARTICIPATING SCHOOLS

Listed below are the 6 Rocketship Education schools (including the location and amount) that are participating in the working capital financing program.

No.	School	City	Non-Profit Corporation	Not to Exceed Loan Amount*
1.	Rocketship Si Se Puede Academy	San Jose	Rocketship Two Elementary School	\$1,020,896
2.	Rocketship Los Suenos Academy	San Jose	Rocketship Three Elementary School	1,373,071
3.	Rocketship Mosaic Academy	San Jose	Rocketship Four Elementary School	985,279
4.	Rocketship Discovery Prep	San Jose	Rocketship Five Elementary School	1,454,398
5.	Rocketship Brilliant Minds	San Jose	Rocketship Six Elementary School	296,015
6.	Rocketship Alma Academy	San Jose	Rocketship Seven Elementary School	908,222
				\$6,037,881